Directorate of
Intelligence

Secret

25X1

World Rice Market: Buffeting the LDCs (

25X1

An Intelligence Assessment

Secret

GI 84-10096
June 1984

Copy 538

Directorate of
Intelligence

Secret

[redacted] 25X1

World Rice Market: Buffeting the LDCs [redacted] 25X1

An Intelligence Assessment

This paper was prepared by [redacted] Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Economics Division, OGI, on [redacted] 25X1 25X1

Secret
GI 84-10096
June 1984

25X1

World Rice Market: Buffeting the LDCs

25X1

Key Judgments

Information available as of 30 April 1984 was used in this report.

Rice is a key element in the political and economic stability of many developing countries. During the 1960s and 1970s the role of rice in the dietary patterns of Africa and Asia was enhanced by the rapid production gains brought by the Green Revolution and the ability to import rice to offset any domestic production shortfalls. Since 1980, however, rice consumption throughout most of the Third World has regularly outstripped production despite steadily rising rice output. As a result, global rice reserves that were carefully accumulated to record levels in the late 1970s have fallen to the lowest level in eight years. At the same time, LDC rice importers, lacking foreign exchange, have been forced to curtail purchases of foreign rice, keeping prices low despite the tightening supply situation.

25X1

As the rice situation has shifted from one of surplus to deficit, some governments, particularly in Africa, are facing urban populations angry at interruptions in the supply of rice and at local prices that are rapidly rising. With no rice stocks and limited cash, these countries are urgently trying to arrange concessionary or credit purchases and countertrade deals, as well as barter arrangements, trading Kenyan beans for Thai rice, Mexican beans for Costa Rican rice, or Brazilian manufactured goods for Pakistani rice. At the same time, rice exporters, reacting to the dropoff in Third World purchases, have slashed prices by half since 1982. Faced with falling revenues and themselves in need of foreign exchange, governments of some LDC exporters—such as Thailand and Burma—are selling rice normally earmarked for domestic consumption. This, in turn, is jeopardizing domestic consumption and risking local discontent.

25X1

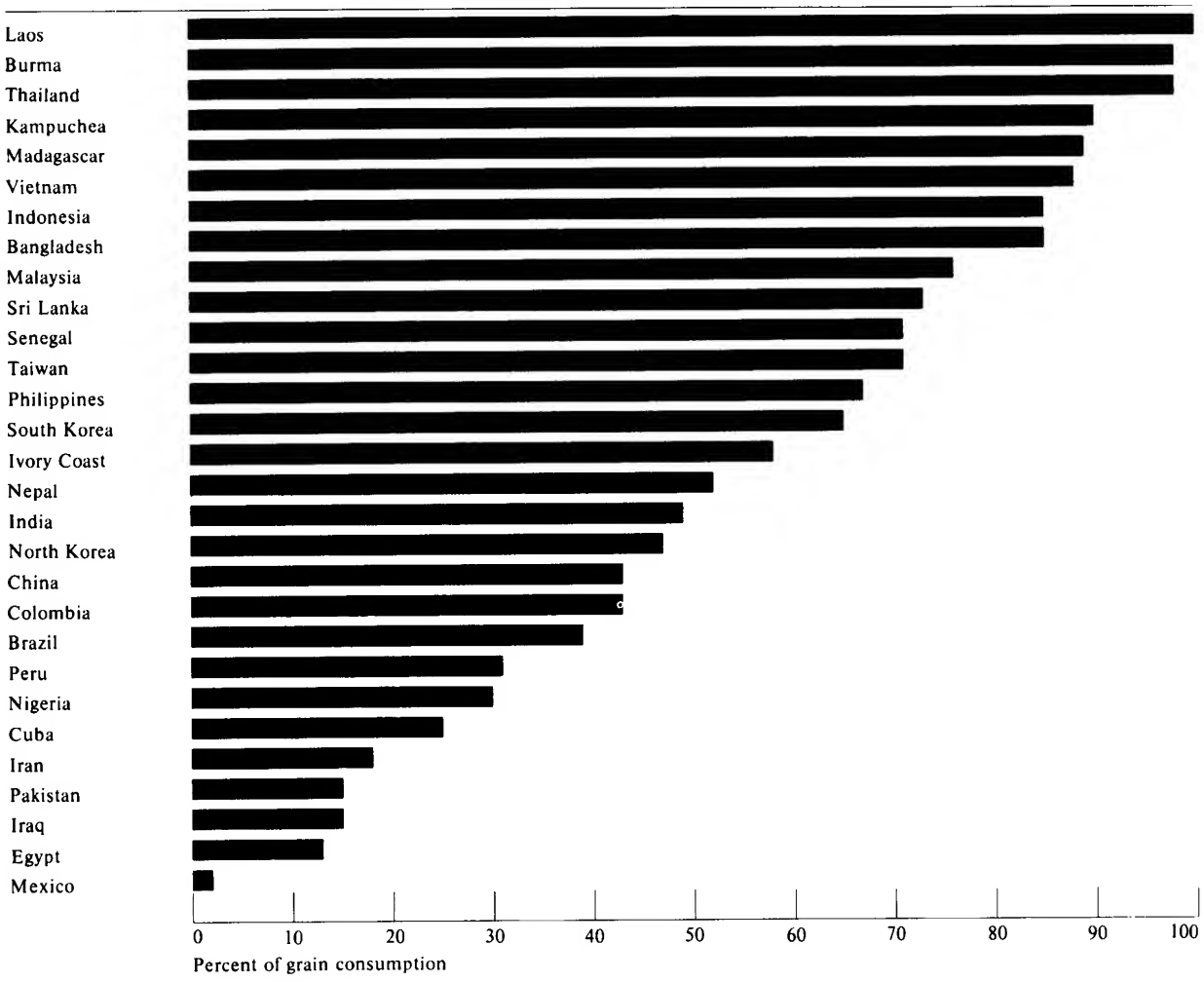
Whether or not the current situation will deteriorate in the near term will depend critically on the monsoon which will sweep across Asia during the upcoming summer months. Although current crop prospects are excellent, the 1985 crop situation could change quickly with a deterioration in the weather. A serious crop shortfall could occur at a time that developing country governments are under heavy pressure to import rice both to rebuild reserves and for distribution in volatile urban areas. Over the longer haul, the potential for political instability, underscored over the past six months by food price riots in the Dominican Republic and Tunisia, rice riots in Bolivia, and rice-related discontent in Nigeria could further complicate the resolution of the LDC debt problem, jeopardize LDC economic growth and recovery, and create additional problems in such areas as Indonesia, Brazil, and Nigeria, which are of strategic importance to the United States.

25X1

Contents

25X1

Figure 1
Rice Dependency, 1983



25X1

302870 6-84

25X1

World Rice Market: Buffeting the LDCs

25X1

Rice and the LDCs

According to Department of Agriculture (USDA) figures, rice is the critical grain staple for more than half of the world's population, accounting for roughly one-third of total LDC grain consumption (figure 1). In more than a score of countries, rice accounts for more than 75 percent of total cereal intake. For rice importers, low prices and plentiful supplies have facilitated urbanization and improved health standards. For LDC exporters, rice sales have provided employment for millions of farmers and foreign exchange earnings of nearly $3 billion in 1981, the latest USDA estimate. For a handful of developing countries—Burma, Pakistan, Thailand, Suriname, Guyana, and Vietnam—international trade statistics show that rice sales are a mainstay of export programs, accounting for up to one-half of trade income. Dozens of other LDCs, such as Brazil and Egypt, are small or only occasional exporters, selling rice when bumper crop years result in surplus.

For many developing countries, particularly in West Africa, adequate supplies of rice at affordable prices—especially for urban residents—have proved to be an integral ingredient for political stability. According to Embassy reports:

- Protests in Liberia against proposed price increases in 1979 turned violent when the Army was called in to maintain order. The rice riots were motivated, in part, by the public view that President Tolbert and his family—who owned extensive agricultural holdings—would be among the primary beneficiaries of proposed increases in consumer and producer prices.

- The lack of rice in urban markets was an important factor in the fall of the government in Guinea-Bissau in 1980.

- The government in Sierra Leone faced a serious challenge in 1981 when labor unions called a general strike because of high rice prices.

- In 1972/73 urban riots in Indonesia were triggered by rises in the price of rice. Since then the government has made strenuous efforts to procure sufficient rice to maintain its ceiling price and thereby forestall further unrest.

25X1

Because rice is a key commodity in their economies, most LDC governments maintain tight control over all aspects of production and trade. In many Third World countries the government determines, among other things, the price paid the farmer, the cost of fertilizer, the level of trade and stocks, and the cost to consumers. For example, USDA and UN Food and Agriculture Organization (FAO) studies point out that, in nearly all major importing and exporting countries, trade in rice is handled through state corporations or controlled by governments through the issuance of import or export licenses. Moreover, the World Bank reports that approximately two-thirds of world rice trade is carried out through government contracts.

25X1

25X1

Government control, especially of prices, has not been without cost. Price controls transformed *South Korea* from a rice exporter to an importer in the 1960s, according to an International Food Policy Research Institute study. In addition, observers in *West Africa* believe that rice production has not kept pace with demand for some time because governments traditionally have paid farmers higher prices for cash crops such as coffee and cocoa than for food crops.[1]

25X1

25X1

The Marketplace: Foreign Government Control Mechanisms

According to recent USDA and FAO studies, rice, like many other commodities, is traded via a long-established international network of government trading agencies, large multinational trading firms, and small independent firms. Bangkok is the leading center for international rice trade and prices. Houston and Rotterdam, the other two major centers, tend to follow Bangkok's prices. Bangkok, at the center of the world's largest rice region, is the world's most complete market for varieties and grades of rice and always has milled supplies available. In addition, the Government of Thailand is able to intervene in the market through a "set-aside" stock of uncommitted milled rice which can either be distributed domestically or sold to other governments at competitive prices. Each week the average selling price for major grades of rice for the previous week is released. This price list is disseminated internationally through interested organizations. Most of the international rice trade is conducted through a few specialized trading houses—Continental, based in New York; Riz et Denrees and Action, based in Paris; and Noga, in Geneva. Connell Rice and Sugar is the major exporter of US rice. [redacted]

Thailand. *The Board of Trade maintains control over the destination and volume of Thai export rice by requiring export permits for private trade, by export taxes, by giving exporters access to government credit facilities at favorable rates, and (increasingly) by government-to-government contracts. Private milling and exporting businesses arrange for sales and shipments through a committee composed of representatives of major Thai trading firms.* [redacted] 25X1

Pakistan. *The Trading Corporation of Pakistan controls the export of superior (Basmati) rice. Private exporters are permitted to arrange for exports of lower qualities of rice in conjunction with the government which maintains controls on quality and prices. The government levies export duties on Basmati and places a ceiling of 5,000 tons on exports of coarse rice to all countries except Indonesia, Nepal, the Philippines, and Sri Lanka, to which unlimited quantities can be sold.* [redacted] 25X1

Other Exporters. *Foreign trade in rice is a monopoly of the Chinese Government through the China National Cereals, Oils, and Foodstuffs Import-Export Corporation. The Government of* ***Taiwan*** *controls export trade through the provincial Food Bureau and the Central Trust of China. The* ***Burmese*** *Government is likewise the sole legal exporter of rice, and the Myanma Export-Import Corporation is the official agency handling all rice exports. The* ***EC*** *Grain Management Committee decides how much rice will be offered for export and what subsidies will be paid in order to sell its higher cost product on the world market.* [redacted] 25X1 25X1

Evolving Market Trends

The growing importance of rice in the Third World has been keyed to the advent of the Green Revolution in the mid-1960s which permitted sharply increased rice output and rapidly rising consumption levels. According to USDA analysis, production gains were accomplished through widespread adoption of high-yield rice varieties, heavy use of greatly improved fertilizers, expanded irrigation, and a 15-percent increase in acreage between 1965 and 1975. Taken together, these factors boosted world rice yields by nearly one-quarter over this 10-year period. During the latter half of the 1970s, world rice production still rose on average a percentage point faster than consumption each year. As a consequence, global stocks grew to a record 28 million tons, more than three times the level of the early 1960s. Indeed, the ratio of

Production Prospects in Key Rice-Producing Countries

According to the USDA, major developments in Asia—accounting for 90 percent of world rice production—include:

- ***China**'s harvest is expected to be well above last year's record of 109.6 million tons. Bad weather earlier in the summer delayed planting of the late-season crop, making it vulnerable to cold weather late in the year. However, with almost totally irrigated fields, Chinese yields will be among the best in the world.*
- ***India**—the world's second-largest rice producer behind China—may have a crop of about 57 million tons, one-fourth larger than last year's drought-stricken harvest. The upsurge was made possible in part by monsoon rains that supplied generally adequate moisture. In addition, decreased fertilizer prices in conjunction with an 8-percent rise in government procurement prices announced at planting time resulted in increased acreage and yields.*
- ***Thailand**'s primary crop is believed to be about 12 million tons, or 4 percent larger than last year's drought-reduced crop, in spite of some bad weather and price-induced contractions in area planted.*
- ***Indonesia** will have a record crop of about 24.5 million tons, as a result of a good main rice crop to be harvested this spring. However, in spite of increased acreage and higher yields, the total 1984 harvest will be up only about 7 percent over last year's drought-reduced crop because of the poor fall dry-season crop which was hurt by a spotty summer monsoon.*
- *The **South Korean** rice crop, which was harvested in October/November, developed well as a result of favorable growing conditions and improved yield potential. As a result, the harvest totaled 5.2 million tons, a small gain over last year.*
- ***Burma** is projected to harvest a record rice crop of about 9.3 million tons, in spite of the late monsoon and a subsequent hurricane that caused widespread flooding.* [redacted] 25X1

*In the **Western Hemisphere**, except for the United States, most of the major producers will probably have average crops in 1984. The US harvest, already completed, fell by one-third to 3.3 million tons as a result of reduced plantings under the rice payment-in-kind program and the summer-long drought. Eight months of above-normal rainfall resulted in massive flooding of fields in Brazil, Argentina, and Uruguay and sharply lower crops last spring; however, according to USDA reports, crops are expected to recover this spring.* [redacted] 25X1

stocks to annual consumption reached a record 11 percent in 1979, providing a generous safety net in case of crop failure. [redacted]

Since the late 1970s, however, these trends have turned negative as production gains tapered off and consumer demand continued to grow. So far in the 1980s, consumption has exceeded global production each year, despite record crops. The production shortfall in 1983 alone was 3.7 million tons. Global stocks have continued to be drawn down to meet the excess demand for rice. [redacted]

According to USDA, the outlook this year is for more of the same—another record crop but a further reduction in stocks. *Production* is forecast to reach 298.6 million tons (milled basis) in the marketing year ending 31 July 1984 (table 1). Based on a 3-percent increase in the total harvested area and a record yield, USDA anticipates record crops in India, Burma, Thailand, Pakistan, Indonesia, China, and Vietnam—gains which depend heavily on good weather through harvesttime. Among the major producers, only the United States is expected to have a smaller crop this year. [redacted] 25X1 25X1

Table 1
Major Rice Producers and Consumers

Thousand metric tons, milled basis

	1979	1980	1981	1982	1983	1984 [b]
Production [a]						
World total	**263,700**	**257,400**	**271,000**	**280,400**	**286,962**	**298,600**
Asia						
China	93,100	97,800	95,100	97,800	109,600	114,100
India	53,800	42,300	53,600	53,600	46,000	57,350
Indonesia	17,500	17,900	20,200	22,300	23,000	24,500
Japan	11,500	10,900	8,900	9,300	9,300	10,000
Thailand	11,500	10,400	11,500	12,400	11,400	11,900
Vietnam	6,500	7,000	7,600	8,200	9,000	10,000
Burma	6,500	6,000	8,200	8,500	9,000	9,300
Pakistan	3,200	3,200	3,100	3,400	3,400	3,500
South Korea	5,100	4,000	5,100	5,200	5,100	5,200
Latin America						
Brazil	5,163	6,554	5,874	6,225	5,304	6,120
Colombia	1,115	1,256	1,230	1,169	1,346	1,200
Peru	320	285	450	480	400	400
Africa						
Egypt	1,575	1,682	1,597	1,498	1,633	1,630
Ivory Coast	318	336	321	284	284	285
Liberia	163	172	160	147	134	118
Madagascar	1,203	1,363	1,423	1,279	1,999	1,170
Nigeria	499	725	825	915	850	940
United States	**4,300**	**4,300**	**4,800**	**5,900**	**4,900**	**3,300**
Consumption						
World total	**258,600**	**261,800**	**272,300**	**281,400**	**290,700**	**298,900**
Asia						
China	92,100	96,700	94,700	97,600	108,700	113,600
India	50,300	45,900	53,300	54,400	46,800	55,100
Indonesia	18,700	20,200	21,300	22,300	24,000	24,700
Japan	10,300	10,100	10,100	10,400	10,700	10,700
South Korea	6,700	5,800	5,400	5,500	5,500	5,400
Thailand	8,400	8,300	8,400	8,600	8,600	8,600
Latin America						
Brazil	5,768	6,120	6,256	6,392	6,324	6,500
Colombia	1,115	1,171	1,219	1,249	1,290	1,300
Peru	368	400	465	533	513	400

Table 1 (continued)
Major Rice Producers and Consumers

Thousand metric tons, milled basis

	1979	1980	1981	1982	1983	1984 [b]
Consumption [a]						
Africa						
Ivory Coast	554	554	581	640	650	650
Liberia	229	235	250	246	229	236
Madagascar	1,359	1,539	1,615	1,636	1,587	1,560
Nigeria	1,000	899	1,200	1,400	1,500	1,400

[a] The world rice harvest stretches over six to eight months. Thus, the 1979 production represents the crop harvested in late 1978 and early 1979 in the Northern Hemisphere and the crop harvested in early 1979 in the Southern Hemisphere.
[b] Estimate.

Source: US Department of Agriculture, Foreign Agricultural Service.

25X1

Among the Third World countries that are not self-sufficient in rice, the greatest production uncertainty this year is in Africa. In Madagascar—the continent's second-largest producer after Egypt, accounting for about one-third of African production—the Embassy reports that recent rains and flooding together with cyclones have cut the crop in half. The situation is also bad for many smaller producers. The FAO claims that continuation of the drought—in many countries for the third year running—will cause crop shortfalls as high as 50 percent:

- *Senegal*'s harvest will compare to the worst in the last decade. According to the US Embassy, the rice harvest could be as low as 40,000 tons, less than two-thirds of last year's crop.
- *Liberia*'s crop may be less than 120,000 tons if Embassy forecasts hold true. This would give Monrovia its smallest crop since 1970.
- *Ghana* is undergoing its second consecutive drought-blighted crop. Embassy reports indicate a 1984 crop about half the roughly 50,000 tons the country produced annually in the mid-1970s.

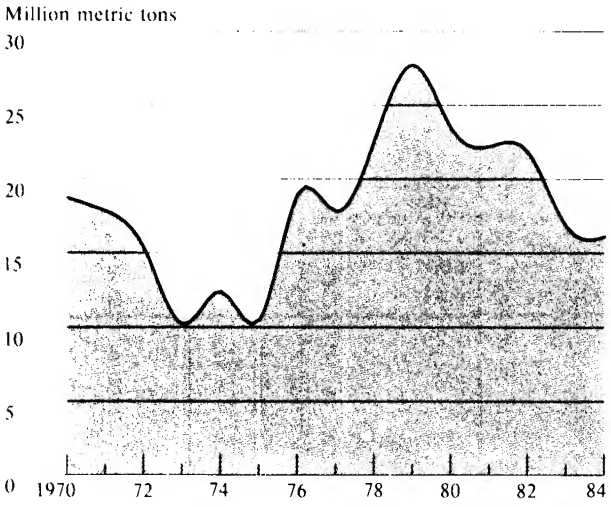
25X1

In Nigeria, Africa's third-largest producer, crop prospects are considerably better than last year when drought reduced the rice crop by 7 percent. According to Embassy reporting, spring planting has benefited from timely rainfall. If the weather continues favorable, Nigeria may harvest a record crop of about 940,000 tons, according to USDA. Nonetheless, imports will remain substantial because of depleted stocks.

25X1

According to USDA reckoning, world rice consumption in 1984 will reach 298.9 million tons. The forecast, however, assumes a record rice crop in Asia and the capability of importing countries to purchase approximately $3 billion in foreign rice. The precarious financial position of most African importers may

Figure 2
World Rice Stocks, 1970-84[a]



[a] Ending stocks on a milled basis; stock data are based on an aggregate of different market years and should not be construed as representing world stock levels at a fixed point in time. Stock data are not available for all countries and exclude the USSR, China, North Korea, and all parts of Eastern Europe.

302871 6-84

force them to buy less grain than the USDA forecasts. Most of the projected consumption gains will take place in China and India. The remaining LDCs are expected to share only a 500,000-ton gain. With less than record world production or with import cutbacks due to a lack of funds, the LDCs may be facing an effective shortage of several million tons.

Those production and consumption forecasts imply a drawdown of stocks by about 300,000 tons. According to USDA forecasts, rice stocks in non-Communist countries will dip to about 16.4 million tons at the end of the current marketing year, close to 60 percent below their peak in 1978/79 (figure 2). However, estimates of stocks are uncertain at best. For one thing, some key countries such as Burma and China do not provide information on stocks, considering it a state secret. In addition, countries where the adequacy of rice consumption is a sensitive political issue often provide misleading information. For example, about 40 percent of the 372,000 tons of Basmati rice reportedly in Pakistan's government-held reserve already has been sold, according to the US Embassy.

25X1

Even if the USDA stock estimates are reasonably accurate, these reserves would provide less of a cushion for the market than is indicated because they are based on an aggregation of differing market years; they do not represent actual stock levels at a fixed point in time. Moreover, they are unevenly distributed. For example, about one-third of total rice stocks is held by India and not available for export. Similarly, more than one-third of the world's tradable rice reserves is held by the United States. The US product, which consists largely of high-quality, long- and medium-grain white rice selling at a high premium over Thai rice, is priced out of much of the LDC market.

25X1

A potential for shortages also exists because of the segmentation of the rice market based on type and grade (table 2). According to USDA, strong regional preferences for specific rice grain types have evolved:

25X1

- Foreign, high-yielding rice varieties (HYV) were introduced into South Korea in the early 1970s, but consumer dislike of the flavor and cooking qualities limited their acceptance; consumer willingness to pay a premium for domestic varieties caused their prices to double those of the HYV type.

25X1

Table 2
Rice: Types and Markets

Type of Rice	Percent of World Market	Principal Exporters	Principal Importers	Comment
Long-grain white rice (Indica)	68	Thailand, United States (southern states—Arkansas, Louisiana, Texas), Pakistan, Burma, China	Western Europe, Iran, Iraq, Malaysia, Hong Kong, Singapore, Uruguay, Argentina, Brazil, Soviet Union, Indonesia	The world market for long-grain or Indica rice is highly fragmented according to quality—percentage of brokens, translucency of the grain, chalkiness, and uniformity. Just as there is little substitution between Japonica and Indica, there is also little between regular milled long grain and parboiled.
Medium- and short-grain white rice (Japonica)	13	United States (California), Australia	South Korea, Indonesia	Japonica usually sells at a discount to Indica. Demand for this rice is limited because of its stickiness when cooked.
Broken grain rice	5	Thailand, Burma	Senegal, Liberia, Madagascar, Mauritania, The Gambia	Generally considered the lowest quality rice. Usually purchased by countries that mill rice by hand pounding or by those with little foreign exchange.
Parboiled long-grain rice	10			
High-quality		United States, Thailand	Saudi Arabia, Nigeria	Parboiled long-grain rice is traded in two distinct markets, depending on quality. The higher the percentage of brokens, the darker the color, the stronger the odor, the lower the quality.
Poor-quality		Thailand, Burma	Bangladesh, Liberia, Sri Lanka	
Aromatic rice (Basmati)	3	Pakistan, India	Middle East	Basmati is usually sold at about twice the price of high-quality long-grain rice
Glutinous rice	1	Thailand	Laos, Indonesia, Japan, China	Generally sold at a discount to nonglutinous rice, this waxy, sweet rice is used mainly for desserts and ceremonial foods; however, it is the staple food in northeast Thailand and Laos.

Source: USDA/ERS, Rice Outlook and Situation Report, March 1984,

25X1
25X1

- In Malaysia, the domestic product is marketed locally in mixed varieties containing large proportions of broken grains and chalky kernels; although the Malay and Indian elements of the population tolerate rice of this poor quality, the urban Chinese reject it in favor of imported long-grain translucent rice even though it costs more.

- Many new city dwellers also view rice as a status symbol separating them from their rural backgrounds. West Africans have developed strong taste preferences for high-quality imported rice; urban Nigerians, for example, are willing to pay a high premium for parboiled long-grain rice from the United States and Thailand.

According to a recent study of the rice market, if shortages of a preferred type of rice occur, consumers are often willing to pay a premium for it; if it is unavailable, they are likely to demand other food grains rather than accept a type or quality of rice they do not like. Other grains, such as wheat, will be accepted only to a point and with reluctance, at times accompanied by violent protest.

LDC Importer Problems

Developing country importers are encountering the most serious problems from the gradual shift in world rice supply and demand patterns (table 3). With erratic production and high population growth rates, many of these countries are unable to maintain stable per capita consumption levels. The Brazilian Government, for example, recently released a study which found that per capita rice consumption fell from 74.0 kilograms in 1975 to 60.3 kilograms in 1983 as population growth outpaced production. In the African countries, which normally account for one-fourth of world rice imports, the gap between domestic production and demand has widened even further. Thus, according to USDA figures, per capita rice consumption in Liberia fell in the years 1970-82 from 150 to 112.8 kilograms. Similarly, in Senegal per capita consumption fell during the same years from 74 to 72.8 kilograms. This year, the FAO expects 24 African countries to encounter grave food shortages. Although food crises have occurred in Africa several times during the last 15 years, the pervasiveness of current food problems makes the present situation more serious than previous emergencies have been. 25X1

In the past, developing country importers were able to turn to foreign supplies to cover shortfalls in the domestic crop. Most do not now have this luxury. During the 1970s, rice imports by developing countries rose an average of 4 percent annually, according to USDA, and peaked in 1981 at more than 9 million tons. As the effects of the recession and the debt crisis spread, the trend reversed. LDC rice imports plummeted in 1982 to 6.4 million tons, recovered slightly in 1983, and are expected to drop again in 1984 by about 3 percent, according to USDA estimates. 25X1 25X1

Faced with rice shortfalls, an increasing number of African countries have already been forced to raise politically sensitive prices, according to Embassy reporting. The US agricultural attache in Lagos reports that domestic rice prices have tripled since December, and shortages have begun to appear in Akure and Onitsha. According to Embassy analysis, spot rice shortages and high prices are weakening the staying power of General Buhari's government. Elsewhere in Africa: 25X1

- The political impact of a doubling of rice prices over the past two months in *Sierra Leone* is arousing concern in the government. According to Embassy reporting, intense public discussion and grumbling have focused on the retail price of rice. In an attempt to avoid spot shortages, President Stevens has instructed the Marketing Board to purchase 10,000 tons of rice commercially; however, foreign exchange is not currently available to pay for imports because proceeds from future exports of cocoa and coffee have been mortgaged to pay for oil imports. The Embassy also reports that the government is considering use of the military to move large stocks of domestic rice from the countryside to Freetown; however, urban dwellers prefer white imported rice to brown upcountry rice.

Table 3
Major Rice Exporters and Importers, by Calendar Year

Thousand metric tons, milled basis

	1980	1981	1982	1983	1984 [a]
Exporters					
World total	**12,731**	**12,940**	**11,811**	**12,047**	**11,679**
Asia					
Burma	675	674	701	850	800
China	1,116	583	460	550	550
Taiwan	261	92	307	550	300
India	423	1,143	633	165	175
Japan	653	795	318	300	200
Korea, North	284	200	250	250	250
Nepal	10	43	50		
Pakistan	971	1,127	794	1,299	1,300
Philippines	231	83		50	35
Thailand	2,700	3,049	3,620	3,700	3,700
Latin America					
Argentina	107	110	92	75	120
Guyana	81	78	35	45	40
Uruguay	165	215	227	171	225
United States	2,977	3,008	2,487	2,330	2,100
Australia	321	335	530	350	475
EC-10	804	624	825	797	773
Egypt	178	134	22	35	35
Other countries	774	647	460	530	601
Importers					
World total	**12,731**	**12,940**	**11,811**	**12,047**	**11,679**
Asia					
Bangladesh	168	34	415	64	125
China	18	110	250	75	100
Hong Kong	359	362	365	365	365
Indonesia	2,040	543	332	1,175	700
Korea, South	822	2,292	228	221	100
Malaysia	167	277	392	384	400
Singapore	187	178	192	180	175
Sri Lanka	189	168	217	165	190
Vietnam	135	140	95	30	6
India	1	70	10	310	675
Japan	75	66	14	15	15
Latin America					
Brazil	239	142	124	400	175
Cuba	224	199	200	200	200
Mexico	128	66	16		125
Peru	250	103	63	127	100

Table 3 (continued)
Major Rice Exporters and Importers, by Calendar Year

Thousand metric tons, milled basis

	1980	1981	1982	1983	1984 [a]
Africa					
Ivory Coast	257	335	363	434	350
Madagascar	177	191	357	250	200
Nigeria	394	686	666	711	800
Senegal	304	340	321	365	375
South Africa	126	134	146	164	165
Middle East					
Iraq	379	350	369	474	440
Iran	507	583	475	680	680
Kuwait	85	95	100	110	110
Saudi Arabia	356	427	471	500	525
Syria	39	72	102	120	120
United Arab Emirates	441	285	170	175	175
USSR	694	1,283	859	400	450
Eastern Europe	328	353	291	288	291
Canada	99	99	108	115	120
EC-10	889	1,079	1,135	983	960
Portugal	20	128	110	60	75
Other countries	2,634	1,750	2,855	2,507	2,392

[a] Estimate.

Source: US Department of Agriculture, Foreign Agricultural Service.

25X1

- In *Burundi,* the price of rice, an important food of the salaried population, has risen by 50 to 60 percent in recent months, according to Embassy reporting. So far the most visible result of rising staple costs has been social stress and rising crime; however, the Embassy believes a continuation of the trend may have growing political impact.

- In *Somalia,* where shortages of foreign exchange have constricted commercial imports, the price of rice rose 120 percent between December and March, according to Embassy reporting.

- In *Ghana,* the price of rice increased 250 percent in December. Embassy reporting indicates that widespread opposition to price increases in basic commodities, such as rice, has begun to surface, particularly among workers and other supporters of the Rawlings regime. The Embassy forecasts widespread hunger and malnutrition this spring, lasting until the June harvest begins to replenish stocks.

25X1

Exporter Problems

The problems buffeting the major rice-consuming countries are also beginning to have direct feedback effects on the world's major rice exporters—as exports

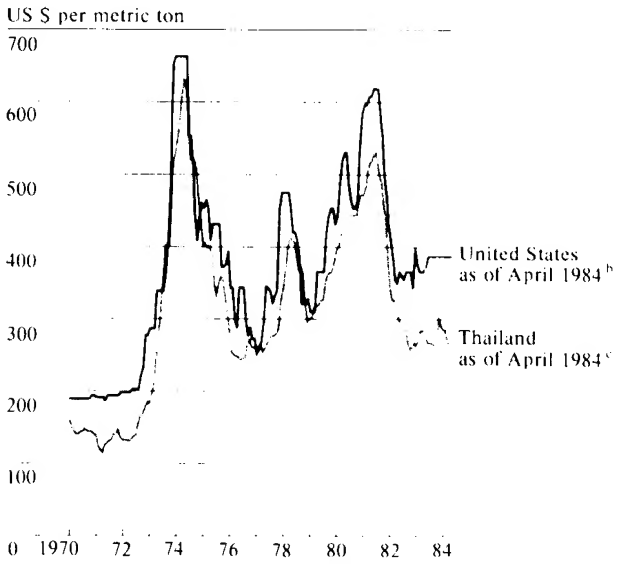
contract, prices weaken, and earnings drop. According to USDA projections, total exports will be at the lowest level in six years (table 3). As a consequence of reduced import demand, some rice exporters have moved to below-market credit terms and other sweeteners such as barter and countertrade arrangements to encourage foreign sales. Thailand, the world's largest rice exporter and historically a cash seller, is now extending credit on liberal terms and cutting prices. In February of this year, the Nigerians were able to buy 400,000 tons of Thai rice at prices well below the posted figures, according to USDA.

25X1

Weak importer demand is also forcing LDC exporter countries to push rice exports at the expense of domestic supplies. With foreign exchange earnings from exports of other commodities down, some rice-exporting developing countries have abandoned their traditional policy of giving priority to domestic rice needs in favor of expanding international sales. According to Embassy reporting and USDA estimates, domestic rice reserves in both Thailand and Burma have been sold abroad in the last year. In Burma, where domestic demand has been suppressed to meet export commitments, the Embassy reports government procurement is running about 50 percent behind last year as farmers hold back rice for their own use and for the higher priced black market. Moreover, farmers are switching from rice to more profitable crops. In Guyana, the US Embassy fears that efforts to maintain exports at past levels, despite the smallest rice crop since 1976, could lead to widespread starvation and, in conjunction with other social and political problems currently plaguing Guyana, provide the spark for political crisis.

Despite the drive to push exports, revenues from foreign rice sales have sagged. Prices remain stubbornly low, in spite of tightening supplies. To a large extent, price cutting on the part of the Thai who set the world price and policies of secrecy concerning stocks of some major traders, together with low effective demand, are responsible. As a result, according to USDA statistics, Thai earnings were down slightly in 1983 from the depressed level of 1982 even though export volume last year was more than 20 percent above 1981 levels. The earnings of Burma and Pakistan, although up from 1982, failed to recover to 1981 levels despite a similar increase in sales volume.[2]

Figure 3
World Rice Prices, 1970-84[a]



[a] Based on monthly averages.

[b] Milled, Zenith No. 2 medium grain miller to distributor, f.o.b. New Orleans.

[c] White milled 5% broken, f.o.b. Bangkok

302872 (A04706) 6 84

25X1

25X1 25X1

Outlook and Implications

The world rice situation is likely to remain a source of concern in the Third World for at least several years to come. In the near term, the production situation will depend crucially on weather patterns. Approximately 90 percent of the world's rice crop is produced

[2] Although in the 1960s and 1970s Japan was a major player in world rice trade, its importance has declined in the last few years as a result of government policies to reduce rice production

25X1

in Asia, only about half of which is irrigated. Thus, the delicate balance between world rice supplies and demand hinges critically on the Asian monsoon. A significant crop shortfall in one or two important producing countries—such as China, India, Indonesia, or Thailand—could send shock waves through the marketplace. Under this scenario, world stocks, unless substantially rebuilt, would be insufficient to offset the shortage. Even with record world production, stocks are likely to remain at current levels or decline further, as a result of rapidly growing consumption.

In the longer run, demographic factors point to a steady increase in rice demand, not only throughout Africa but also in the rapidly growing urban population centers of Asia and Latin America. On the other hand, world rice producers have already largely absorbed the production benefits brought by the Green Revolution. The relatively easy, low-cost methods of increasing production have been exhausted, and "quick-fix" efforts to raise production by means of capital-intensive tropical rice estates are likely to be limited, in part because of soaring infrastructure costs and problems in adapting temperate-climate agricultural practices to the tropical environment. Given the current average yield per hectare, for example, USDA analysis suggests that from the standpoint of basic infrastructure each 1 million tons of rice from new lands now requires a nearly $3 million capital investment

At the same time, present government policies, if continued, will lead to increasing instability in the rice market. Government policies common to most African states have contributed to the decline in food production. Government pricing policies have discouraged domestic production of staple foods by keeping official prices low to subsidize urban consumers. These policies also have accelerated the migration of young male farmers to African cities, thereby contributing to the production decline as well as the rise in urban food demand.[3] Government policies aimed at achieving rice self-sufficiency by major rice consumers, such as India, Indonesia, and South Korea, are further complicating the world rice market. Each of the countries, according to production statistics, is self-sufficient, but only in years when rainfall is adequate to take full advantage of the benefits of high-yield seed and large applications of fertilizer. Some industry observers believe that this has only added volatility to the market.

25X1

Throughout the rest of the decade, localized rice shortages and high prices have the potential to touch off violent civil disorder that could directly or indirectly affect strategically positioned LDCs which are of concern to the United States. Public demonstrations against disruptions in the rice supply in Lagos, Nigeria, and La Paz, Bolivia, and food riots in Tunisia and the Dominican Republic earlier this year underscore the dangers facing financially troubled governments who attempt to resolve budget problems by altering longstanding policies designed to keep food prices low. The likelihood of rice-related disorders is greatest in Sub-Saharan Africa where a convergence of forces—extended drought, rice and other grain shortages, IMF-mandated austerity measures, Islamic fundamentalism, tribal factionalism, and leftist influences—makes resolution of any one of these problems risky. While conditions in the Middle East and South Asia are perhaps less fragile, the likelihood of sporadic incidents of rice-inspired violence in these strategic regions nonetheless remains high throughout the 1980s.

25X1

25X1

25X1

25X1